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SUBJECT: SAUDI ARABIA HOPING TO TURN MINING INTO THE THIRD PILLAR OF ITS ECONOMY

REF: RIYADH 216

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¶1. (U) Summary: Behind oil and petrochemicals, Saudi Arabia is trying to make mining the third pillar of its economy. Although its mining operations are small compared to many other countries, and dwarfed by the Kingdom's oil and petrochemical sector, KSA plans to expand its mining industry by leveraging foreign investment and building new megaprojects. Currently, two U.S. firms operate in the KSA, Petro-Hunt and Arabian Shield. The Saudi government hopes that developing its mining sector will support its goal of diversifying the Saudi economy and creating jobs. The global financial crisis has impeded these infrastructure investments, but the Kingdom remains committed to pushing these projects forward because of the perceived long-term benefits. End summary.

Still in the minor leagues

¶2. (SBU) The Saudi mining sector is still "in the minor leagues," according to the Deputy Minister of Mineral Resources, Sultan Shawli, in an October meeting with ConGen officers. The Deputy Ministry of Mineral Resources (part of the Ministry of Petroleum and Mineral Resources) is responsible for issuing all mining licenses in the KSA. With 320 million tons of exploited minerals in 2008, the Kingdom's mining industry is considered big for the region, but small compared to the rest of the world. (Note: The country with the largest mining industry in the world, the U.S., produced nearly 3 billion tons of exploited minerals in 2000.) Shawli said that Saudi deposits include gold and other metals, as well as bauxite (for aluminum), phosphate, and other minerals. With resources such as Al Jalamid, one of the largest phosphate deposits in the world with an estimated 3 billion tons, the potential to expand the mining industry is significant. The Saudi government is hoping to do this through increased foreign investment and new megaprojects.

Mining licenses issuance will maintain 7% growth

¶3. (SBU) The Deputy Minister said he expects mining to play a major role in achieving the Kingdom's development goals. He said his ministry's issuance of mining licenses grew by 7%

from 2007 to 2008 to 1,408 total active licenses covering over 75,000 square meters, and he said he expects that rate to continue. Senior Deputy Ministry for Mineral Resources economist Hank Shatah compared the Kingdom's mining strategy to its oil sector, stating, "The capital will be Saudi, but know-how will be international."

Megaprojects planned

¶4. (U) KSA is building a new mining city in Ras Al-Zour, approximately 70 km north of Jubail in the Eastern Province, mostly for aluminum and phosphates (ref A). KSA plans to spend \$2 billion building an electric railway spanning 1,500 km to connect the industrial city there with phosphate mines in the north and bauxite mines in the northeast. (Note: Nearly a year later, the railroad is still reported "almost" finished. End note.) Along with phosphate plants and aluminum smelters, the new city will also have a power station and a dedicated port. Analysts estimate that the total cost to build this new city will reach \$25 billion.

Little U.S. penetration

¶5. (U) Currently, only two U.S. firms operate in KSA's mining industry: Petro-Hunt Middle East, a subsidiary of Texas-based Hunt Group which has origins in the oil industry dating to the 1920's, and Arabian Shield Development Company, a 50/50 joint venture with Al-Mshreq established in KSA in ¶1998. Post is currently unaware of any impending plans for additional U.S. presence, but the Deputy Minister told us the

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Kingdom is currently negotiating with Anglo-American (a UK company co-founded by J.P. Morgan in 1917) to establish a new joint venture in KSA.

¶6. (SBU) Comment: Saudi Arabia is still focused on diversifying its economy and finding other avenues to support any fluctuations in the price of oil. This building-up stage for KSA's mining industry may provide an opportunity for increased Saudi-U.S. business cooperation. In past years, mining has been largely ignored as the Kingdom focused on developing its prodigious oil and gas resources. As the Saudi government gradually has increased its focus on diversifying its economy and creating more jobs, it has paid greater attention to its significant mineral resources. The ministers of Commerce and Petroleum have singled out mining as a priority for growth, hoping to create jobs for Saudis by developing "clusters" to use Saudi mineral deposits (e.g., aluminum using bauxite resources). These plans are still in the development stage, but bear further attention. End comment.

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